

BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

AGENDA

TUESDAY, MAY 14, 2013

(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

**COMMISSIONERS CHAMBERS**  
**515 CENTER AVENUE - 4<sup>TH</sup> FLOOR**  
**BAY CITY, MI 48708**

PAGE	I.	CALL TO ORDER
	II.	ROLL CALL
	III.	MINUTES
1 - 5 .....	1.	MARCH 22, 2013 - ACTUARY PRESENTATION
6 - 7 .....	2.	APRIL 9, 2013 - REGULAR MEETING
	IV.	PUBLIC INPUT
	A.	BECKER BURKE, CONSULTANT, CHICAGO, IL
On Web Page	1.	1 <sup>ST</sup> QUARTER REPORT
8 - 9 .....	B.	PORTFOLIO VALUE 1/31/12 - 5/07/13
	C.	MONEY MANAGER REPORTS
10 - 13 .....	1.	ATALANTA SOSNOFF - PORTFOLIO ENDING 3/13/13
	V.	ANNOUNCEMENTS
	A.	NEXT REGULAR MEETING - TUESDAY, JUNE 11, 2013 IMMEDIATELY FOLLOWING THE RETIREMENT BOARD OF TRUSTEES MEETING @ APPROX. 2:30 P.M. - <b>COMMISSIONERS CHAMBERS, 515 CENTER AVENUE - 4<sup>TH</sup> FLOOR, BAY CITY, MI 48708</b>
	VI.	UNFINISHED BUSINESS
	VII.	NEW BUSINESS
	VIII.	MISCELLANEOUS BUSINESS
	IX.	ADJOURNMENT

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
March 22, 2013 - Actuary Meeting  
PAGE 1

The meeting, held in the Bay County Commission Chambers, 4<sup>th</sup> Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan, was called to order by Chairman, Steve Gray at 10:04 a.m. Roll call was taken. All trustees are present except Mr. Coonan.

1. Moved, supported and carried to excuse Trustee Coonan.

Mr. Gray called for public input as we have several people from the public present today. There is no public comment so Mr. Gray moved on to petitions and communications. Present today are Shana Neeson and Jim Anderson from Gabriel, Roeder, Smith and Company. They will be presenting the December 31, 2011 Actuarial Valuation.

Mr. Anderson gave some background on the VEBA stating that the Bay County retiree health benefits are defined benefit arrangements. It is a promise made to employees, that benefits will be provided upon retirement. Retiree health benefits sometimes are not clearly defined. In order for a benefits program to be self-sustaining, contributions plus investment income must equal benefit payments and expenses. He explained the components that make up the valuation which is then used in a mathematical process to project future payments on account of specified benefit provisions. These projected payouts are converted to equivalent present value amounts and a corresponding dollar contribution is determined. The calculations they perform must also comply with legal and accounting standards.

Shana Neeson explained the amortization periods and methods of the Plan that impact each individual group in Bay County. Three groups use the Level Dollar method because these groups are closed to future hires. The remaining groups use a Level Percent of Payroll Method because those groups continue to be open to future hires. The groups vary in the time period they use from 20 year amortization to 30 year amortization. Each group uses a 6% interest rate to calculate the liability, with the exception of Bay Arenac Behavioral Health which uses 7.5% due to the fact they are pre-funding the cost of the benefit structure. She discussed changes to the Annual Retirement Contribution as well as the Affordable Care Act.

Currently there is no adjustment in the valuation results for the excise tax which will occur in 2018. They currently do not hold a cost for this, but they did perform an internal review to reveal that premiums are expected to exceed the "Cadillac Plans" cap for some of the groups, and without changes to future premiums in terms of premium reductions, or changes in interpretations of the Affordable Care Act, there will possibly be a cost associated with the next valuation.

Ms. Neeson reviewed the results of the 2011 Valuation Retiree Health Benefits. Some of the groups are "closed" and will continue to see a reduction in active employees. The numbers for Active Employees in the General County, Bay Arenac Behavioral Health and Bay Medical Care Facility excludes part time members who are not eligible for retiree health care coverage. Bay Medical Care Facility also excludes any members who were hired after the closure date of January 15,

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
March 22, 2013 - Actuary Meeting  
PAGE 2

2010. Overall, a good portion of the groups had consistent population sizes. They were relatively level between the last Valuation and this Valuation, however General County Actives decreased from 350 to 333. Bay Medical Care Facility active population decreased from 192 to 175. Populations for Active employees for the General County, Bay Medical Care Facility, and Sheriff's Department are expected to decrease over time because those Plans are closed. New hires will be in the Retirement Plan but will not be covered by the Retiree Health Plan, so this population will decrease in size over time as the current Active employees retire, withdraw, or defer. The change in the Bay Arenac Behavioral Health contribution was largely accounted for by the change in population in both Active and Retired. The Active increased from 247 to 266 and Retirees from 23 to 30.

The representatives answered questions from Trustees and concluded their presentation.

2. Moved, supported and carried to receive the December 31, 2011 Actuary Valuation as presented today.

A five minutes recess is taken. We are back on the record at 10:35 a.m. Trustee Peltier is not present for the remainder of the meeting.

Kevin Beardsley gave his presentation regarding software. Mr. Beardsley is the software consultant assigned to Bay County. This software is for public pension plans, not the VEBA. The presentation has four components, but he will be discussing only one, the Benefit Calculator for the retirement staff. It also includes some top level information about Benefit Estimators for general employee use, an Account Manager Utility for Valuation Data which was recently approved, Death Check Services to verify individuals reported as deceased with the Social Security Administration.

The Benefit Calculator would be installed on the computer belonging to the Plan Administrator. The data would be stored on our network to be backed up according to our IT back up schedule. Updates are automatically downloaded when the individual logs in. This guarantees that our software is always up to date. It integrates with our Account Manager Utility which houses all the information required to do the pension valuation, but it is also necessary to do a benefit calculation. This calculator will integrate with the Account Manager Utility to reduce the amount of data entry and potential errors while performing a benefit calculation.

Kevin showed different data screens in this program and how they work. They can customize to any existing format. He showed the basic overview of the calculator. It can track all the different information for the various unions in Bay County. This software also has the ability to scan documents for new hires, and any additional documents for existing employees. There is the potential for savings using this system because contractually GRS will provide up to 25 final calculations. Anything over that, we have to pay for. Ms. Wright states that she is preparing up to 60 final calculations in a given year. Currently, if an employee requests an estimate, it is prepared manually

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
March 22, 2013 - Actuary Meeting  
PAGE 3

using Excel spreadsheet. This system can calculate estimates before requesting a final calculation, so we could do an estimate and not worry about the additional fee for the estimate.

If we purchase this software there will be a two step process. First, electronic data will be imported such as wages and contributions, and will specify which group the members are in. We have about 15-18 years of history. That history will be pulled in to the software. Paper copies will be trickier. That would require scanning and then they would come up with a process to link the documents to all of the accounts within.

Kevin explained the safeguards that are built in. Before GRS sends us the approval on a calculation, it is reviewed by a series of individuals. GRS has six levels of review. The analysts and actuaries assigned to Bay County will have worked enough cases for them to feel confident that the final calculation is correct.

Mr. Starkweather makes a motion to form a sub-committee to review all this information and make a recommendation to the full Board. This motion is supported and opened up for discussion.

The approximate cost for this software program would be \$20,000-24,000 range. Much of this depends on the level of customization that would be designed by the County. There is an additional 15% of the cost per year that would cover a certain amount of hours to handle benefit provision changes that occur throughout the year. Ms. Wright stated that the cost for this software has dropped dramatically from when they initially looked at it. Twenty years ago such a program would have cost over \$100,000 dollars. Kevin stated that different modules can be added on as needed and the prices are structured to fit most budgets. Kevin answered questions from Trustees and concluded his presentation.

3. Moved, supported and carried to form a sub-committee. Chairman asks for a roll call vote.

Roll Call:

Mr. Brzezinski - yes  
Ms. Carpenter - yes  
Mr. Coonan - excused  
Mr. Gray - no  
Mr. Herek - yes  
Ms. Peltier - excused  
Mr. Pett - no  
Mr. Starkweather - yes

Motion fails as five yes votes are required.

Chairman asks if any one is interested in making a motion to purchase this software. No motion made, Chairman Gray tables this matter and requests that it be placed on the agenda for the April meeting.

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
March 22, 2013 - Actuary Meeting  
PAGE 4

4. Moved, supported and carried to approve the request from Barbara MacGregor, Health Department, to purchase her previous service credit.

**ANNOUNCEMENTS:**

A. Next regularly scheduled meeting will be Tuesday, April 9, 2013 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in Commissioner's Chambers, 515 Center Avenue - 4<sup>th</sup> Floor, Bay City, MI 48708.

**UNFINISHED BUSINESS:** None

**NEW BUSINESS:** None

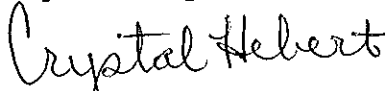
**MISCELLANEOUS BUSINESS:**

Chairman Gray asked Mr. Anderson if he had any insight regarding changes to be implemented in 2014 regarding public employees and multipliers applied to their labor contracts. Mr. Anderson did not have any information to offer.

**ADJOURNMENT:**

5. Moved, supported and carried to adjourn the meeting at 11:24 a.m.

Respectfully submitted,



Crystal Hebert  
Finance Officer/Secretary

**MEETING OF THE V.E.B.A. BOARD OF TRUSTEES COMMITTEE**  
**March 22, 2013 - December 31, 2011 Actuarial Valuation**

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4<sup>TH</sup> FLOOR,  
BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 10:04 a.m.

OTHERS PRESENT: DANEAN WRIGHT, CRYSTAL HEBERT, TIFFANY JERRY, JAN MROZINSKI, MICHAEL  
REGULSKI, MAUREEN SZCEPANSKI, ED RIVET, KEVIN AYALA

TRUSTEE	1	2	3	4	5	6	7	8	9	10
BRZEZINSKI	S	M	S - Y	Y	Y					
CARPENTER	Y	Y	Y	S	Y					
COONAN	E	E	E	E	E					
GRAY	Y	Y	N	Y	Y					
HEREK	M	Y	Y	Y	Y					
PELTIER	Y	Y	E	E	E					
PETT	Y	Y	N	Y	M					
STARKWEATHER	Y	S	M - Y	M	S					

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
April 9, 2013  
PAGE 1

The meeting, held in the Bay County Commission Chambers, 4<sup>th</sup> Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan, was called to order by Chairman, Steve Gray at 2:24 p.m. Roll call was taken. All trustees are present.

1. Moved, supported and carried to approve the minutes, as printed, from the March 12, 2013 regular meeting.

Mr. Gray called for public input. Seeing no one from the public is present, he moved onto petitions and communications.

2. Moved, supported and carried to receive the Portfolio Value from 1/1/12 - 4/4/13. Today's value is \$33.9 million.

Jeff Black from Becker, Burke Associates is present today to give an update on the investment policy for the VEBA. He refers to a letter from Becker, Burke addressing the motions of the past meetings. An optimization study was done for the four existing asset classes of the VEBA. The letter indicates the changes made to Section VI. Asset Allocation - Total VEBA, Acceptable Ranges of Commitment. Large Cap has a target of 44%, Mid/Small Cap has a Target of 16%, for a total of 60%. Real estate has no Minimum or Target, but a Maximum of 4%. The remaining 40% is allocated to Investment Grade Bonds. The other modifications were in Section XIII. Performance Review, which indicate the changes to the Russell and Barclays Index. Mr. Black recommends that the Board move to approve these changes and forward to Corporation Counsel for review and adoption into the Investment Policy.

3. Moved, supported and carried to approve the changes to the VEBA Investment Policy as proposed by Becker, Burke Associates.

**ANNOUNCEMENTS:**

- A. Next regularly scheduled meeting will be Tuesday, May 14, 2013 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in Commissioner's Chambers, 515 Center Avenue - 4<sup>th</sup> Floor, Bay City, MI 48708.

**UNFINISHED BUSINESS:** None

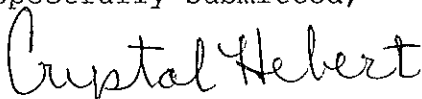
**NEW BUSINESS:** None

**MISCELLANEOUS BUSINESS:** None

**ADJOURNMENT:**

4. Moved, supported and carried to adjourn the meeting at 2:38 p.m.

Respectfully submitted,



Crystal Hebert  
Finance Officer/Secretary

MEETING OF THE **V.E.B.A.** BOARD OF TRUSTEES COMMITTEE  
APRIL 9, 2013

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4<sup>TH</sup> FLOOR,  
BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 2:24 P.M.

OTHERS PRESENT: HOWARD POHL, JEFF BLACK, DANEAN WRIGHT

TRUSTEE	1	2	3	4	5	6	7	8	9	10
BRZEZINSKI	M	Y	Y	Y						
CARPENTER	Y	Y	S	M						
COONAN	Y	Y	M	Y						
GRAY	Y	Y	Y	Y						
HEREK	S	Y	Y	Y						
PELTIER	Y	S	Y	Y						
PETT	Y	M	Y	S						
STARKWEATHER	Y	Y	Y	Y						

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED



**VEBA PORTFOLIO VALUE**

	<u>DODGE &amp; COX</u>	<u>CASH</u>	<u>ATALANTA SOSNOFF</u>	<u>LORD ABBETT</u>	<u>CS MCKEE</u>	<u>TOTAL</u>
<b>2012</b>						
JAN	4,744,381.74	23,341.91	4,774,929.28	5,782,203.49	13,556,991.23	28,881,847.65
FEB	4,957,686.81	141,703.43	5,003,798.19	5,958,731.82	13,575,896.75	29,637,817.00
MARCH	5,085,201.22	156,067.52	5,169,110.21	6,012,771.11	13,509,994.85	29,933,144.91
APRIL	5,991,155.39	186,068.57	5,127,801.08	5,023,538.22	13,645,204.77	29,973,768.03
MAY	4,670,417.74	207,434.25	4,752,087.80	5,468,775.64	13,750,484.96	28,849,200.39
JUNE	4,944,848.31	218,278.51	4,926,255.06	5,620,085.64	13,816,486.70	29,525,954.22
JULY	5,023,826.66	237,546.65	4,973,210.73	5,558,841.11	13,958,821.07	29,752,246.22
AUG	5,169,289.62	240,122.51	5,109,739.12	5,738,972.06	13,987,861.42	30,245,984.73
SEPT	5,324,980.74	262,359.53	5,263,322.60	5,850,653.25	14,149,694.74	30,851,010.86
OCT	5,292,298.41	293,624.23	5,171,534.01	5,847,050.63	14,060,815.46	30,665,322.74
NOV	5,332,143.99	318,414.45	5,929,910.87	5,216,474.90	14,100,074.44	30,897,018.65
DEC	5,476,853.70	336,925.05	5,268,580.73	6,070,413.01	14,078,467.83	31,231,240.32

	<u>DODGE &amp; COX</u>	<u>CASH</u>	<u>ATALANTA SOSNOFF</u>	<u>LORD ABBETT</u>	<u>CS MCKEE</u>	<u>TOTAL</u>
<b>2013</b>						
JAN	5,813,821.72	973,027.66	5,521,741.71	6,531,548.24	14,006,372.20	32,846,511.53
FEB	5,856,055.05	1,003,898.82	5,584,735.85	6,636,024.19	14,078,939.69	33,159,653.60
MARCH	6,119,927.66	1,080,486.88	5,772,645.27	6,924,233.71	14,094,198.97	33,991,492.49
APRIL	6,238,139.18	1,125,133.85	5,870,711.43	6,924,233.71	14,215,079.35	34,373,297.52
MAY						0.00
JUNE						0.00
JULY						0.00
AUG						0.00
SEPT						0.00
OCT						0.00
NOV						0.00
DEC						0.00

8

◆ Mgr Mix VEBA

Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R.E. and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
BAYCO-VEBA CASH 2611831	0.00 0.00%	1,125,136.02 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	1,125,136.02 3.24%
BAYCO - VEB DODGE & COX BAL 2613001	0.00 0.00%	0.07 0.00%	6,352,286.93 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	6,352,286.93 18.28%
BAYCO-VEBA CS MCKEE 2643882	0.00 0.00%	432,461.01 3.05%	0.00 0.00%	13,736,508.33 96.93%	0.00 0.00%	1,982.51 0.01%	14,170,951.85 40.78%
BAYCO VEB LORD ABBOTT FD 2643890	0.00 0.00%	0.00 0.00%	7,093,556.81 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	7,093,556.81 20.41%
BAYCO - VEB ATLANTA SOSNOFF 2646670	0.00 0.00%	65,785.19 1.10%	5,949,322.85 98.95%	0.00 0.00%	0.00 0.00%	-2,586.48 -0.04%	6,006,521.36 17.29%
<b>Total for consolidation</b>	<b>0.00</b>	<b>1,623,382.29</b>	<b>19,389,169.39</b>	<b>13,736,508.33</b>	<b>0.00</b>	<b>-603.97</b>	<b>34,748,456.04</b>
<b>% for consolidation</b>	<b>0.00%</b>	<b>4.67%</b>	<b>55.80%</b>	<b>39.53%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>100.00%</b>

5

# Atalanta Sosnoff

Capital, LLC • 101 Park Avenue, New York, NY 10178-0008 (212) 867-5000 Fax (212) 922-1820 [www.atalantasosnoff.com](http://www.atalantasosnoff.com)



© 1986 Andy Warhol

April 1, 2013

Mrs. Danean Wright  
Retirement Accountant  
Bay County Voluntary Employees' Beneficiary Association  
Bay County Building  
515 Center Ave., Suite 706  
Bay City, MI 48708-5128

Dear Mrs. Wright:

The opening quarter for the S&P 500 Index was notably buoyant, rising 10.6 percent, thereby taking out the high water mark set in late 2007. We did trail but we are almost fully invested expecting further gains for stocks based on fair valuation and continuation of Federal Reserve Board policy easement this year and probably 2014.

To sum up our point of view in 25 words or less: The Fed won't tighten rates. Consumer sentiment and spending improve. Housing's recovery seems irrepressible and capital goods appropriations finally show some life. (22 words)

Ben Bernanke's congressional testimony pointed to sticky unemployment indefinitely so there's no serious tightening of money market rates on the horizon. The Fed's bond buying program, some \$85 billion monthly, rests in place. Housing starts and auto sales reflect the ease of financing for individuals at historically low rates of interest.

For corporations, the high yield bond market's underwriting window stays wide open, even for CCC and single B credit ratings. Although 30-year Treasuries did move above 3 percent, rates on junk bonds haven't budged. Any corporation with some credentials can borrow 10-year money around 5 percent. We're talking \$500 million or more.

(10)

There could be a surge in deal activity coming. Little appreciated, is that once deal activity embraces a cross-section of industries it lifts all ships in their respective sectors. During the eighties, we saw this phenomenon in broadcasting, gaming casinos, natural resources, department stores, banking and finance as well as technology and consumer non-durables. Remember the battles over Reynolds Tobacco and Revlon?

Some 20 percent of the eighties' bull market, pre-Black Monday, was traceable to deal activity and buybacks. A current study by Credit Suisse suggests the present market's deal levitation could amount to 9 percent.

The S&P 500 Index year to date holds its own against all other financial markets here and abroad, up over 10 percent. The value sector, thanks to banks, handily outperforms growth stocks and NASDAQ. Emerging markets show negative returns while the world index, (MSCI) trails the S&P 500 by 350 basis points.

High yield bonds, up 2.9 percent, seem on track to at least earn their coupon (6 percent) but little more. Barring a weakening economy, Treasuries remain problematic. LIBOR is next to nothing and facilitates deal financing and home mortgages are tied to LIBOR.

When we look at the top 100 stocks by market capitalization, implementation, or stock picking, it's still not a lay-up. Stocks within their respective sectors show extreme variance, Apple vs. Google, for example. In energy Exxon Mobil is relatively stillborn compared with Chevron and Schlumberger, up 13 percent. Procter & Gamble and PepsiCo are in comeback mode but Coca-Cola is not on fire. Wal-Mart struggles but not Home Depot.

It's not surprising how buoyant biotechnology paper trades. The market remains starved for growth stories. It wants Biogen, Gilead Sciences and Celgene. These positions are helping performance along with the relatively good action in ethical drug houses like Eli Lilly and Pfizer, largely financial engineering plays with ample dividend coverage.

Technology is all over the place, with some disappointments because information technology spending lays dormant. Aside from Google, there are no big cap performers. Microsoft, IBM, Oracle, Intel and EMC trail the market's recovery.

Our top positions show overweighting in financials and except for Google, light in technology. Biotechnology is a serious overweight, namely Gilead. JPMorgan Chase is a major commitment along with Citigroup, Goldman Sachs and Bank of America. We see the market posting a double digit rate of return again this year. The right number looks like 1600 to 1650 on the S&P 500 Index. Then, corporate earnings momentum must carry the ball.

What could upset our cockeyed optimism? Plenty to worry about: China's export momentum slows thereby reducing their raw materials imports. Materials stocks continue to sputter. Sickies like Italy and Spain, could lose refinancing capacity and float out into the Mediterranean Sea. Iran, North Korea, Syria and Cyprus remain festering issues.

It ain't easy to stay optimistic 365 days out of the year. As a frame of reference, since the Internet bubble in 2000 the market has compounded at a skimpy 2.4 percent. Not exactly roses and daffodils. But, it's catch-up time for equities. We expect corporate profit margins to hold firm, buoyed by low labor costs, minimal interest expense and some firming of capacity utilization.

With all good wishes,

*Martin T. Sosnoff*

Martin T. Sosnoff

*Craig Steinberg*

Craig B. Steinberg

**BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION**

**PERFORMANCE STATISTICS**

Inception  
June 9, 2009  
to Mar. 31, 2013

	<u>Three Months Ended Mar. 31, 2013</u>	<u>Three Years Annualized Mar. 31, 2013</u>	<u>Total Return</u>	<u>Annualized Rate of Return</u>
<b>TOTAL</b>	+9.60%	+7.15%	+46.70%	+10.58%
Composite Index (1)	+9.54%	+12.51%	+70.93%	+15.10%
<b>EQUITY</b>	+9.87%	+6.09%	+50.62%	+11.34%
Russell 1000 Growth Index	+9.54%	+13.05%	+82.97%	+17.17%
Russell 1000 Growth Index + 1.00 %	+9.73%	+14.05%	+88.99%	+18.17%

(1) 65% RUSSELL 1000 GROWTH / 35% BC AGGREGATE BOND thru 01/20/12 ~ 100% RUSSELL 1000 GROWTH forward

13